

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

LUNA PIER HOUSING COMMISSION

Financial Statements

June 30, 2006

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

TABLE OF CONTENTS

	<u>Page</u>
Management Discussion and Analysis	i
Independent Auditor's Opinion	ii
 <u>FINANCIAL STATEMENTS</u>	
Statement of Net Assets	2
Statement of Revenues, Expenses, and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5
 <u>SUPPLEMENTAL DATA</u>	
Combining Balance Sheet	10
Combining Statement of Income and Expenses	11
Schedule of Expenditures of Federal Awards	12
Status of Prior Audit Findings	13
Report on Compliance Applicable with Requirements to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	14
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	16
Schedule of Findings and Questioned Cost	17
Finding 1: Internal Control Weaknesses	18
2: Excessive Accounts Receivable	19
3: PILOT Miscalculated	20

This discussion and analysis of the Luna Pier Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the financial statements.

Entity-Wide Statements

The combined financial statements show, in one place, all the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission.

Fund Statements

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Proprietary Fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Entity-Wide Financial Highlights

The Commission was awarded the following Federal Assistance:

	<u>Year 2006</u>	<u>Year 2005</u>	<u>Difference</u>
Operating Subsidies	\$ 163,705	\$ 139,797	\$ 23,908
Capital Projects Funds	339,405	7,643	331,762

Comparison of the current year to the past and discussion of significant changes as follows:

Cash	\$ 75,133	\$ 70,628	\$ 4,505
Prepaid Expenses	26,769	28,485	(1,716)
Fixed Assets,			
before Depreciation	4,471,448	4,164,218	307,230
Net Assets	2,346,772	2,195,846	150,924
Total Liabilities	86,620	71,879	14,741

	<u>Year 2006</u>	<u>Year 2005</u>	<u>Difference</u>
Revenues:			
Tenant Revenues	\$ 270,094	\$ 252,466	\$ 17,628
HUD Grants	503,110	147,440	355,670
Expenses:			
Administrative	156,217	144,458	11,759
Tenant Services	8,112	6,831	1,281
Utilities	134,980	118,202	16,778
Maintenance & Operations	145,453	148,493	(3,040)
General Expenses	48,824	44,807	4,017
Depreciation Expense	148,796	145,556	3,240

Our cash position increased slightly, fixed assets increased \$ 307,230. The increase was possible because of our net profit before depreciation of \$ 299,722. Our liabilities increased due to an increase in accounts payable at year end of \$ 18,192, and a decrease in compensated absences of \$ 3,091.

Net Assets increased by the amount of our net profit of, \$ 150,926.

HUD grants received are a result of calculations under the Performance Funding System, and Capital grants authorized and obligated during the year. Our operating subsidies remained the same, but we drew our 2004 & 2005 Capital Fund Projects money to complete unit renovations and building improvements. See Capital Assets for further discussion.

The Commission provided the following housing for low to moderately low income families as follows:

	<u>Year 2006</u>	<u>Year 2005</u>
Low Rent Public Housing	102	102

General Fund Budgetary Highlights

The Commission approved an operating budget for the fiscal year ending June 30, 2006, and had no occasion to amend the original.

The significant differences between the actual results and our budget are as follows:

	<u>Actual</u>	<u>Budget</u>	<u>Over/ (Under)</u>
Water	\$ 49,064	\$ 31,290	\$ 17,774
Materials	14,858	8,000	6,858
HUD Operating Subsidies	163,705	189,188	(25,483)
Net Operating Profit			
(Loss) before Depreciation	\$ 299,722	\$ 306,140	(6,418)

General Fund Budgetary Highlights, continued

In the prior year, the 4th quarter water bill due June 30, 2005 was not accrued in error; the expense was charged to the current year and the 4th quarter billing was properly accrued in the current year.

Materials increased with the completion of repairs for the fire unit in the prior year, as well as additional cost for a number of unexpected unit turn-overs during the year.

HUD operating subsidies were funded at 87 % of eligibility for the fiscal year; this followed a number of years in which subsidies have been reduced from eligible amounts, see Commission's Position for further discussion.

Entity Wide Capital Assets

At the close of the fiscal year, the Commission had \$ 4,471,448 in capital assets with accumulated depreciation of \$ 2,145,705. This represents an increase of \$ 307,230 and \$ 148,796 over 2005 respectively.

Major additions include the following:

Completion of kitchen and bathroom renovations, \$ 293,534. started in prior year, addition of a handicap ramp and accessibility in a unit, \$ 4,572, and some appliance replacements \$ 1,611.

Commission's Position

The Commission is concerned with the increase in Federal unfunded mandates such as project based accounting, asset management, and uncertainty in future funding with the new subsidy calculations and cuts in other federal programs.

We will be utilizing the 2007 Capital Funds to continue the upgrade and improvements of our family and senior units - specifically targeting appliances, interior doors, windows and the parking area.

The Commission expects to continue to provide safe, sanitary and decent housing for the low and moderately low income families.

Questions or Comments may be
directed to:

Kay Axel, Executive Director
Lotus Manor
Luna Pier Housing Commission

John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Board of Commissioners
Luna Pier Housing Commission
10885 Ellen Street
Luna Pier, Michigan 48157

Independent Auditor's Report

I have audited the Business Type Activities of the Luna Pier Housing Commission as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Luna Pier Housing Commission as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

January 19, 2007

LUNA PIER HOUSING COMMISSION
Statement of Net Assets
June 30, 2006

ASSETS

C-3080

CURRENT ASSETS

Cash & Cash Equivalents	\$	75,133
Accounts Receivable		5,497
Accounts Receivable- HUD		125
Prepaid Expenses		<u>26,769</u>

Total Current Assets	\$	107,524
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NON CURRENT ASSETS

Land	\$	159,762
Buildings		4,042,821
Furniture, Equipment- Dwellings		75,384
Furniture, Equipment- Administrative		65,075
Leasehold Improvements		128,406
Accumulated Depreciation		<u>(2,145,705)</u>

Total Non Current Assets		<u>2,325,743</u>
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<u>TOTAL ASSETS</u>	\$	<u>2,433,267</u>
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LUNA PIER HOUSING COMMISSION
Statement of Net Assets
June 30, 2006

LIABILITIES

C-3080

CURRENT LIABILITIES

Accounts Payable	\$	23,088	
Accounts Payable- Other Government		22,317	
Compensated Absences		8,145	
Tenants Security Deposit		21,961	
Deferred Revenue		2,619	
Other Current Liabilities		<u>1,747</u>	
<u>Total Current Liabilities</u>	\$		79,877

NONCURRENT LIABILITIES

Compensated Absences		<u>6,618</u>	
<u>Total Liabilities</u>	\$		86,495

Net Assets:

Investment in Fixed Assets net of Related Debt	\$	2,325,743	
Unrestricted Net Assets		<u>21,029</u>	
<u>Total Net Assets</u>			<u>2,346,772</u>
 TOTAL LIABILITIES AND NET ASSETS	\$		<u>2,433,267</u>

The Accompanying Footnotes are an Integral Part of the Financial Statements.

LUNA PIER HOUSING COMMISSION
Combined Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended June 30, 2006

OPERATING REVENUE

Tenant Rental Revenue	\$ 270,094	
Tenant Revenue-Other	15,124	
HUD Grants	200,979	
Interest Income	2,994	
Other Income	<u>3,756</u>	
<u>Total Operating Revenue</u>		\$ 492,947

OPERATING EXPENSES

Administrative	\$ 156,217	
Tenant Services	8,112	
Utility Expenses	134,980	
Ordinary Maintenance	145,453	
General Expenses	<u>48,824</u>	
<u>Total Operating Expenses</u>		<u>493,586</u>
<u>Operating Income (Loss)</u>		\$ (639)

NONOPERATING REVENUE (EXPENSES)

Extra Ordinary Maintenance	\$ (1,770)	
Depreciation Expenses	<u>(148,796)</u>	
<u>Total NonOperating Revenue (Expenses)</u>		<u>(150,566)</u>
<u>Income (Loss) before Contributions</u>		\$ (151,205)

CAPITAL CONTRIBUTIONS

		<u>302,131</u>
<u>Changes in Net Assets</u>		\$ 150,926
Total Net Assets- Beginning		<u>2,195,846</u>
Total Net Assets- Ending		\$ <u>2,346,772</u>

The Accompanying Notes are an Integral part of the Financial Statements

LUNA PIER HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended June 30, 2006

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 284,087
Payments to Suppliers	(325,115)
Payments to Employees	(155,672)
HUD Grants	503,110
Other Receipts (Payments)	<u>6,750</u>
Net Cash Provided (Used) by Operating Activities	\$ 313,160

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(308,655)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 4,505
Cash Balance- Beginning of Year	<u>70,628</u>
Cash Balance- End of Year	\$ <u>75,133</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ 150,926
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	148,796
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	2,894
Prepaid Expenses	1,716
Changes in Liabilities Increase (Decrease):	
Accounts Payable	20,648
Accrued Liabilities	(3,435)
Accounts Payable-Other Governments	(2,574)
Accrued Compensated Absences	(3,091)
Security Deposits	(552)
Deferred Revenue	(1,258)
Accrued Liabilities	<u>(910)</u>
Net Cash Provided by Operating Activities	\$ <u>313,160</u>

The Accompanying Notes are an Integral part of the Financial Statements

LUNA PIER HOUSING COMMISSION
Notes to Financial Statements
June 30, 2006

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Luna Pier Housing Commission, Luna Pier, Michigan, (Commission) was created by ordinance of the city of Luna Pier. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 98-1, 2	Low rent program	102 units
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In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1999, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash.

The composition of cash is as follows:

Cash:

General Fund Checking Accounts	\$ 59,570
Money Market	15,263
Petty Cash	<u>300</u>
Financial Statement Total	<u>\$ 75,133</u>

Notes to Financial Statements- continued

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking A/C's	\$ 59,570	\$	\$	\$ 59,570	\$ 59,570
Money Market	15,263			15,263	15,263
Petty Cash	<u>300</u>			<u>300</u>	<u>300</u>
Total Cash	\$ <u>75,133</u>	\$	\$	\$ <u>75,133</u>	\$ <u>75,133</u>

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 159,762	\$	\$	\$ 159,762
Buildings	3,744,715	298,106		4,042,821
Furniture & Equipment-Dwellings	73,773	1,611		75,384
Furniture & Equipment-Admin	66,159	341	1,425	65,075
Leasehold Improvements	<u>119,809</u>	<u>8,597</u>		<u>128,406</u>
	\$ 4,164,218	\$ 308,655	\$ 1,425	\$ 4,471,448
Less Accumulated Depreciation	<u>1,998,334</u>	<u>148,796</u>	<u>1,425</u>	<u>2,145,705</u>
	\$ <u>2,165,884</u>	\$ <u>159,859</u>	\$ <u>0</u>	\$ <u>2,325,743</u>

Note 4: Prepaid Expenses

Prepaid expenses consist of the following:

Prepaid Insurance	\$ 26,769
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Notes to Financial Statements- continued

Note 5: Pension Plan

The Commission contributes to a Simplified Employee Pension Plan, (SEPP). The Commission pays 5 % of all eligible employees wages to the fund. Employees are 100 % vested as soon as they are eligible. Eligibility requirements are as follows: full time employee, over 21 years of age, and have worked for the Commission for at least three of preceding five years.

Note 6: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 7: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Note 8: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 7,335,300
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Luna Pier Housing Commission

30-Jun-06

MI-098

	Account Description	Low Rent 14.850	Capital Projects Funds 14.872	TOTAL
Line Item #				
	ASSETS:			
	CURRENT ASSETS:			
	Cash:			
111	Cash - unrestricted	53,172		53,172
112	Cash - restricted - modernization and developmen		-	-
113	Cash - other restrictec			-
114	Cash - tenant security deposit	21,961	-	21,961
100	Total cash	75,133	-	75,133
	Accounts and notes receivables			
121	Accounts receivable - PHA project			-
122	Accounts receivable - HUD other project		125	125
124	Accounts receivable - other governmer			-
125	Accounts receivable - miscellaneou	-	-	-
126	Accounts receivable- tenants - dwelling reni	5,497		5,497
126.1	Allowance for doubtful accounts - dwelling reni	-		-
126.2	Allowance for doubtful accounts - othe	-		-
127	Notes and mortgages receivable- curren			-
128	Fraud recovery			-
128.1	Allowance for doubtful accounts - fraud			-
129	Accrued interest receivabl			-
120	Total receivables, net of allowances for doubtful account	5,497	125	5,622
	Current investments:			-
131	Investments - unrestrictec	-		-
132	Investments - restrictec			-
142	Prepaid expenses and other asset	26,769	-	26,769
143	Inventories	-	-	-
143.1	Allowance for obsolete inventorie	-	-	-
144	Interprogram - due from	125	-	125
146	Amounts to be providec			-
150	TOTAL CURRENT ASSETS	107,524	125	107,649
	NONCURRENT ASSETS:			
	Fixed assets:			
161	Land	159,762	-	159,762
162	Buildings	3,749,287	293,534	4,042,821
163	Furniture, equipment & machinery - dwelling	75,384	-	75,384
164	Furniture, equipment & macinery - admininstratio	65,075	-	65,075
165	Leasehold improvement:	119,809	8,597	128,406
166	Accumulated depreciator	(2,143,422)	(2,283)	(2,145,705)
160	Total fixed assets, net of accumulated depreciatio	2,025,895	299,848	2,325,743
171	Notes and mortgages receivable - non-curren			-
172	Notes and mortgages receivable-non-current-past du			-
174	Other assets			-
175	Undistributed debit:			-
176	Investment in joint venture:			-
180	TOTAL NONCURRENT ASSETS	2,025,895	299,848	2,325,743
190	TOTAL ASSETS	2,133,419	299,973	2,433,392

	LIABILITIES AND EQUITY:			
	LIABILITIES:			
	CURRENT LIABILITIES			
311	Bank overdraft			-
312	Accounts payable ≤ 90 days	23,072	-	23,072
313	Accounts payable > 90 days past due		-	-
321	Accrued wage/payroll taxes payable	16	-	16
322	Accrued compensated absence	8,145	-	8,145
324	Accrued contingency liability			-
325	Accrued interest payable			-
331	Accounts payable - HUD PHA program			-
332	Accounts Payable - PHA Project			
333	Accounts payable - other government	22,317	-	22,317
341	Tenant security deposits	21,961	-	21,961
342	Deferred revenues	2,619	-	2,619
343	Current portion of Long-Term debt - capital project		-	-
344	Current portion of Long-Term debt - operating borrowing			-
345	Other current liabilities	1,747		1,747
346	Accrued liabilities - other	-		-
347	Inter-program - due to	-	125	125
310	TOTAL CURRENT LIABILITIES	79,877	125	80,002
	NONCURRENT LIABILITIES:			
351	Long-term debt, net of current- capital project			-
352	Long-term debt, net of current- operating borrowing			-
353	Noncurrent liabilities- other	-		-
354	Accrued Compensated Absences- Non Current	6,618		6,618
350	TOTAL NONCURRENT LIABILITIES	6,618	-	6,618
300	TOTAL LIABILITIES	86,495	125	86,620
	EQUITY:			
501	Investment in general fixed asset			-
	Contributed Capital:			
502	Project notes (HUD)			-
503	Long-term debt - HUD guarantee	-	-	-
504	Net HUD PHA contributions	-		-
505	Other HUD contributions			-
507	Other contributions	-		-
508	Total contributed capital	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	2,025,895	299,848	2,325,743
	Reserved fund balance			-
509	Reserved for operating activities			-
510	Reserved for capital activities	-		-
511	Total reserved fund balance	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-
512.1	Unrestricted Net Asset	21,029		21,029
513	TOTAL EQUITY	2,046,924	299,848	2,346,772
600	TOTAL LIABILITIES AND EQUITY	2,133,419	299,973	2,433,392

- - -

Luna Pier Housing Commission

30-Jun-06

MI-098

Combining Income Statement		Low Rent 14.850	Capital Projects Funds 14.872	TOTAL
Line Item #				
	REVENUE:			
703	Net tenant rental revenue	270,094		270,094
704	Tenant revenue - other	15,124	-	15,124
705	Total tenant revenue	285,218	-	285,218
706	HUD PHA grants	163,705	339,405	503,110
708	Other government grants			-
711	Investment income - unrestricted	2,994	-	2,994
712	Mortgage interest income	-		-
714	Fraud recovery			-
715	Other revenue	3,756		3,756
716	Gain or loss on the sale of fixed asset			-
720	Investment income - restricted			-
700	TOTAL REVENUE	455,673	339,405	795,078
	EXPENSES:			
	Administrative			
911	Administrative Salaries	73,179	6,892	80,071
912	Auditing Fees	2,600		2,600
913	Outside management fee			-
914	Compensated absence	(3,091)		(3,091)
915	Employee benefit contributions-administrative	42,282	-	42,282
916	Other operating administrative	31,500	2,855	34,355
	Tenant services			
921	Tenant services - salaries	-	-	-
922	Relocation costs		-	-
923	Employee benefit contributions- tenant service	-	-	-
924	Tenant services - other	8,112	-	8,112
	Utilities			
931	Water	49,064	-	49,064
932	Electricity	40,744	-	40,744
933	Gas	45,172	-	45,172
934	Fuel			-
935	Labor			-
937	Employee benefit contributions- utilities			-
938	Other utilities expense	-		-
	Ordinary maintenance & operation			
941	Ordinary maintenance and operations - labor	75,601	-	75,601
942	Ordinary maintenance and operations - materials & other	14,858	-	14,858
943	Ordinary maintenance and operations - contract cost	14,732	-	14,732
945	Employee benefit contributions- ordinary maintenance	40,262	-	40,262
	Protective services			
951	Protective services - labor			-

952	Protective services- other contract cost	-		-
953	Protective services - othe			-
955	Employee benefit contributions- protective service			-
	General expenses			
961	Insurance premiums	34,230	-	34,230
962	Other General Expense		-	-
963	Payments in lieu of taxes	13,724		13,724
964	Bad debt - tenant rent	870	-	870
965	Bad debt- mortgages			-
966	Bad debt - other			-
967	Interest expense		-	-
968	Severance expense	-		-
969	TOTAL OPERATING EXPENSES	483,839	9,747	493,586
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(28,166)	329,658	301,492
971	Extraordinary maintenance	1,770		1,770
972	Casualty losses - non-capitalize	-		-
973	Housing assistance payment			-
974	Depreciation expense	146,513	2,283	148,796
975	Fraud losses			-
976	Capital outlays- governmental fund	-		-
977	Debt principal payment- governmental fund			-
978	Dwelling units rent expense			-
900	TOTAL EXPENSES	632,122	12,030	644,152
	OTHER FINANCING SOURCES (USES)			
1001	Operating transfers in (out)	27,527	(27,527)	-
1002	Operating transfers out			
1003	Operating transfers from/to primary government			
1004	Operating transfers from/to component unit			
1005	Proceeds from notes, loans and bonds			
1006	Proceeds from property sales			
1010	TOTAL OTHER FINANCING SOURCES (USES)	27,527	(27,527)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	(148,922)	299,848	150,926
		-	-	-
		-	-	-
		-		-
				-
				-
				-
		-		-
			-	
			-	
		-	-	-
		-	-	-

LUNA PIER HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
<u>CFDA 14.850 Public and Indian Housing</u>	
C-3080 Operating Subsidies	\$ <u>163,705</u>
 * <u>CFDA 14.872 Capital Fund Program</u>	
C-3080 Capital Projects Funds	\$ <u>339,405</u>
	 \$ <u>503,110</u>

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 7,335,300
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

*Connotes Major Program Category

LUNA PIER HOUSING COMMISSION
Status of Prior Audit Findings
June 30, 2006

The prior audit of the Luna Pier Housing Commission for the period ended June 30, 2005, did not contained any audit findings.

LUNA PIER HOUSING COMMISSION
Report on Compliance with Requirements
Applicable to Each Major Program
and on Internal Control over Compliance in
Accordance with OMB Circular A-133
June 30, 2006

Compliance

I have audited the compliance of Luna Pier Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Luna Pier Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Luna Pier Housing Commission's management. My responsibility is to express an opinion on Luna Pier Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Luna Pier Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Luna Pier Housing Commission's compliance with those requirements.

In my opinion, except for the following, Luna Pier Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs:

Low Rent Public Housing:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Internal Control Weaknesses	06-1	Activities allowed or unallowed; Allowed Cost
Excess Accounts Receivable	06-2	Cash Management; Eligibility
PILOT Miscalculated	06-3	Allowable Cost

Internal Control over Compliance

The management of Luna Pier Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Luna Pier Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I believe finding 6-1 rises to the level of a material weakness.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

January 19, 2007

LUNA PIER HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
June 30, 2006

I have audited the financial statements of Luna Pier Housing Commission, Luna Pier, Michigan, as of and for the year ended June 30, 2006, and have issued my report thereon dated January 19, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Luna Pier Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs: finding 06-1, 06-2, and 06-3.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Luna Pier Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I did not note any matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgement, could adversely affect Luna Pier Housing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. I believe finding 06-1 rises to the level of a material weakness.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

January 19, 2007

LUNA PIER HOUSING COMMISSION
Schedule of Findings and Questioned Cost
June 30, 2006

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Capital Projects Funds	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted Yes X No

Reportable condition(s) noted Yes X No

Non Compliance material to financial statements noted Yes X No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted X Yes No

Reportable condition(s) noted X Yes No

Non Compliance material to financial statements noted Yes X No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did not qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	No	None	6-1; 6-2; 6-3
Capital Fund Project	Yes	None	N/A

LUNA PIER HOUSING COMMISSION
Findings, Recommendations and Replies
June 30, 2006

The following finding of the Luna Pier Housing Commission, for the year ended June 30, 2006, were discussed with the Executive Director, Ms. Kay Axel, in an exit interview conducted January 19, 2006.

Finding 06-01 Internal Control Weaknesses.

During the course of the audit, the following documents were not found: 8 batch reports with deposit tickets; 56 individual cash receipts; currier log sheets; invoices and documentation for cash disbursements. In addition to the missing documents, half of the cash receipts were issued with incorrect data.

Recommendation

The above mistakes and missing documents required additional audit tests to determine whether the errors were deliberate or a result of carelessness. I determined the missing documents were a matter of misfiling and a disorganized filing system; I further determined that the cash receipt errors were created by input errors rather than by design.

The above lack of documentation and errors constitutes a material weakness in internal controls; I recommend the Commission take immediate steps to insure all source documents are maintained in an organized way and implement supervisory controls to insure the input errors are discontinued.

Reply

All source documents have now been categorized and filed according to type and date. All documents are hole punched and placed in labeled binders to assure accuracy and accessibility. Deposits are doubled checked for accuracy and completeness prior to being deposited. All checks are listed on the deposit slip by writer name and amount, and deposited on timely basis. We no longer accept cash from tenants. All payments must be checks or money orders.

Finding 6-2 Excess Tenants Accounts Receivable.

Average tenant accounts receivable based on units in possession at June 30, 2005 were \$ 43; average balance as of June 30, 2006, was \$ 54. HUD prescribes \$ 15 per unit average as acceptable.

Recommendation

The average accounts receivable balance at June 30 had increased over the prior year, however, the Director was terminated in May 2006 and the new Director has already implemented collection practices which have reduced the outstanding balance as of the date of the audit.

I recommend the Commission continue in it's efforts to get the accounts receivable balance down to an acceptable level.

Reply

We are being more proactive in the collection of our accounts. We have implemented a new Rent Collection Policy, are pursuing legal action to collect monies due from former tenants and are screening new potential tenants to assure that they do not have any prior issues with housing authorities or major utilities in collections.

Finding 6-3 PILOT Miscalculated

Michigan Housing Commissions are eligible to reduce PILOT by a ratio equal to the total millage rate levied on non-homestead property in the current year by the total millage levied on all property in 1993.

The PILOT calculation in the current year did not consider the above ratio.

Recommendation

Public Act 338 of 1996 mandated any municipality must accept a reduced PILOT if the above ratio is greater than 1.00.

I recommend the Commission recalculate the current year PILOT and adjust the payment accordingly; in the future the Commission should apply the above formula in calculating PILOT.

Reply

We have spoken to our fee-based accountant, given her the correct 2006 Millage Rates, and she prepared the correct paperwork immediately. The City of Luna Pier will be contracted to determine how the over-payment will be handled. IN addition, the fee-based accountant has assured us that it will be correct in future years.